

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 PA-02 PRS-01 L-03 H-02 OES-07 ERDA-07  
FPC-01 DODE-00 /124 W  
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P R 291255Z JUL 77  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC PRIORITY 6186  
TREASURY DEPT WASHDC PRIORITY  
INFO AMEMBASSY BERN  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMCONSUL FLORENCE  
AMCONSUL GENOA  
AMEMBASSY THE HAGUE  
AMEMBASSY LONDON  
AMCONSUL MILAN  
AMCONSUL NAPLES  
AMCONSUL PALERMO  
AMEMBASSY PARIS  
AMEMBASSY STOCKHOLM  
AMCONSUL TRIESTE  
AMCONSUL TURIN  
AMEMBASSY TOKYO

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PASS FRB; USEC ALSO FOR EMBASSY; USOECD ALSO FOR EMBASSY

E.O. 11652: N/A  
TAGS: EFIN, IT  
SUBJECT: ITALIAN PRESS REPORTS ON DOLLAR DECLINE AND PROPOSED BIG  
FOUR MEETING

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1. /SUMMARY:/ ON JULY 29, SEVERAL ITALIAN NEWSPAPERS GIVE  
FRONT-PAGE TREATMENT TO RECENT DEPRECIATION OF DOLLAR IN  
EXCHANGE MARKETS AND TO RUMORED MEETING OF BIG FOUR (OR BIG FIVE)  
IN PARIS ON AUGUST 5 (ON AUGUST 6). PRESS ATRIBUTES DEPRECIATION  
OF DOLLAR AS PARTLY DUE TO LARGE US TRADE DEFICIT BUT ALSO AS  
POLICY WARNING TO GERMANY AND JAPAN FOR THEIR NOT HAVING  
COMPLIED WITH LONDON SUMMIT COMMITMENT TO REDUCE THEIR CURRENT

ACCOUNT SURPLUSES. PRESS ALSO REPORTS SUPPOSED POLICY DIFFERENCE BETWEEN US TREASURY AND FRB AND STATEMENTS BY SOME EUROPEANS WHO SUSPECT THAT US BENIGN NEGLECT OF DOLLAR DEPRECIATION IS MOTIVATED BY US TRADE INTERESTS. /END SUMMARY./

2. ON JULY 29 MILAN FINANCIAL DAILY /24 ORE/ CORRESPONDENT REPORTS THAT MEETING OF G-10 (US, GERMANY, FRANCE AND UK) WILL BE HELD IN PARIS ON AUGUST 5. (OTHER PAPERS SUGGEST THAT MEETING WILL BE OF BIG FIVE, INCLUDING JAPAN, AND THAT IT MAY BE HELD ON AUGUST 6. US AND UK DENIALS ARE REPORTED.) MINISTERS OF FINANCE OF THOSE COUNTRIES WOULD BE ACCOMPANIED BY THEIR CENTRAL BANK GOVERNORS. PURPOSE OF MEETING, WHICH WOULD BE HELD JUST PRIOR TO MEETING OF G-10 MINISTERS, WOULD BE TO DISCUSS EXCHANGE MARKET SITUATION AND TO AGREE ON CRITERIA FOR CENTRAL BANK EXCHANGE MARKET INTERVENTION DURING LATTER HALF OF SUMMER.

3. REPORT CLAIMS THAT ON SUNDAY AND MONDAY, JULY 24-25, THERE WERE URGENT CONTACTS MADE BETWEEN FRB CHAIRMAN BURNS AND BANK OF ENGLAND GOVERNOR RICHARDSON CONCERNING UK DECISION TO UNLINK STERLING FROM DOLLAR. /24 ORE/ ARTICLE REPORTS "OPEN DISAGREEMENT" BETWEEN US TREASURY AND FRB CONCERNING DESIRABILITY OF LETTING DOLLAR FALL WITHOUT INTERVENTION SUPPORT. (ROME FINANCIAL DAILY / IL FIORINO/ CARRIES DENIAL OF ANY SUCH CONFLICT BY US TREASURY PRESS SPOKESMEN.) FIRST ARTICLE DESCRIBES PROPOSED BIG FOUR MEETING AS FOLLOW-UP TO BIG FIVE MEETING HELD IN VERSAILLES ON VIGIL OF LONDON SUMMIT MEETING LAST MAY.  
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REPORTEDLY AGREEMENT HAD BEEN REACHED AT VERSAILLES TO ALLOW MARK AND JEN TO RISE AND DOLLAR TO FALL IN EXCHANGE MARKET.

4. NEED FOR MEETING IS ATTRIBUTED TO INCREASE IN TENSION IN EXCHANGE MARKETS AND TO GROWING DIFFERENCES AMONG MONETARY AUTHORITIES OF BIG FOUR COUNTRIES. FOLLOWING STATEMENT BY FRB CHAIRMAN BURNS ON JULY 26 CONCERNING US COMMITMENT TO DEFEND THE DOLLAR, GERMAN MINFIN APEL REPORTEDLY WARNED AGAINST DISASTROUS EFFECT ON WORLD TRADE WHICH WOULD RESULT FROM UNJUSTIFIED DROP IN DOLLAR EXCHANGE RATE. /24 ORE/ ARTICLE CLAIMS THAT APEL ACCUSED WASHINGTON OF WISHING TO IMPROVE US TRADE POSITION BY THIS MANEUVER. ARTICLE ALSO REPORTS STATEMENT BY EC COMMISSIONER SIMONET ON JULY 28 WHICH INDICATED THAT EC MIGHT NOW BE INDUCED TO ADOPT PROTECTIONIST COUNTER MEASURES.  
(MORE)

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.....MEASURES.

5. FRONT-PAGE EDITORIAL IN SAME ISSUE OF /24 ORE/ ALSO DEALS WITH  
DOLLAR QUESTION, DESCRIBING COMMITMENT AT LONDON SUMMIT BY US,  
GERMANY, AND JAPAN TO REFLATE THEIR ECONOMIES, INCREASE THEIR  
IMPORTS, AND THUS HELP COUNTRIES IN STRUCTURAL DEFICIT, I.E.,  
ITALY, UK, AND FRANCE. EDITORIAL ALLEGES THAT GERMANY IS FAI-  
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LING TO MEET ITS GROWTH TARGET AND THAT, WHILE JAPAN MAY MEET ITS  
GROWTH TARGET, IT HAS NOT BEEN ABLE TO REDUCE ITS PERSISTENT  
TRADE SURPLUS.

6. EDITORIAL SUGGESTS THAT RECENT STATEMENT BY TREASURY SECRETARY  
BLUMENTHAL THAT HE WOULD NOT LOOK UNFAVORABLY ON SOME DEPRE-

CIATION OF THE DOLLAR AND ON APPRECIATION OF THE MARK HAS BEEN INTERPRETED AS OUTCOME OF AGREEMENT REACHED IN WASHINGTON BETWEEN CARTER AND SCHMIDT. NONETHELESS, GERMAN SPOKESMEN ARE NOW CRITICIZING BLUMENTHAL FOR STATEMENTS WHICH HAVE LED TO TOO RAPID AN APPRECIATION O THE MARK. GERMAN FINANCE MINISTER APEL REPORTEDLY HAS OPENLY CRITICIZED HIS COUNTERPART, ALLEGING THAT DEPRECIATION OF THE DOLLAR IS OWED IN LARGE PART TO EXCESSIVE INCREASE IN US PETROLEUM IMPORTS AND IMPLYING "BETWEEN THE LINES" THAT THE DOLLAR DECLINE IS MOTIVATED BY POLITICS, I.E., THAT IT CONSTITUTES A WARNING TO GERMANY AND JAPAN FOR THEIR FAILURE TO LIVE UP TO LONDON COMMITMENTS. APEL'S BELIEF THAT DOLLAR IS UNDERVALUED IS REPORTEDLY SHARED BY FRENCH PRIME MINISTER BARRE, AND SECRETARY BLUMENTHAL CAN EXPECT TO BE ASKED FOR EXPLANATIONS OF DOLLAR PERFORMANCE AT PARIS BIG FOUR MEETING.

7. JULY 29 ARTICLE IN MILAN'S /CORRIERE DELLA SERA/EXPRESSES SYMPATHY FOR US POSITION, NOTING THAT US IS PAYING A BALANCE OF PAYMENTS PRICE FOR BEING THE ONLY "LOCOMOTIVE" AMONG THE BIG THREE. CONSEQUENTLY, DOLLAR EXCHANGE RATE SITUATION CANNOT BE OTHERWISE WITHOUT THE HELP OF GERMANY AND JAPAN.

8. /24 ORE/ EDITORIAL SAYS THAT BLUMENTHAL HAS ALREAD BEGUN TO COVER HIS FLANKS THROUGH STATEMENT ON JULY 28 THAT "A STRONG DOLLAR IS VITAL TO THE WORLD ECONOMY." /CORRIERE DELLA SERA/ ALSO DETECTS SHIFT IN USG POSITION AIMED AT PUTTING STOP TO DOLLAR DEPRECIATION. FINALLY, /24 ORE/ SAYS THAT IT IS CLEAR THAT US CANNOT PERMIT DOLLAR TO DEPRECIATE TOO MUCH

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BECAUSE OF AGREEMENT WITH SAUDI ARABIA TOLIMIT PETROLEUM PRICE INCREASES. SINCE PETROLEUM PRICES ARE QUOTED IN DOLLARS, A DECLINE IN DOLLAR EXCHANGE RATE WOULD REDUCE FOREIGN EXCHANGE INCOME OF OPEC COUNTRIES AND STRENGTHEN OPEC "HAWKS."

9. /COMMENT./ SO FAR THERE HAVE BEEN NO PUBLIC STATEMENTS BY ITALIAN MONETARY AUTHORITIES WHO CAN ONLY BE PLEASED TO: (1) BUILD UP OFFICIAL RESERVES BY SUPPORTING DOLLAR IN ITALIAN EXCHANGE MARKET AND (2) BENEFIT FROM DEPRECIATION OF LIRA AGAINST DM, SWISS FRANC AND YEN IN HOME MARKET AND IN EXPORT MARKETS.GARDNER

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## Message Attributes

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**Type:** TE  
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Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009